

GRD-PCO MANAGEMENT OF THE
TRANSFER OF IRRF-FUNDED
ASSETS TO THE IRAQI
GOVERNMENT

SIGIR-05-028
JANUARY 24, 2006

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SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

January 24, 2006

**MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ,
COMMANDING GENERAL, GULF REGION DIVISION, U.S.
ARMY CORPS OF ENGINEERS**

**SUBJECT: GRD-PCO Management of the Transfer of IRRF-funded Assets to the Iraqi
Government (SIGIR-05-028)**

We are providing this report for your information and use. We performed the audit in accordance with our statutory duties contained in Public Law 108-106, as amended, which mandates the independent and objective conduct of audits relating to the programs and operations funded with amounts appropriated or otherwise made available to the Iraq Relief and Reconstruction Fund. Public Law 108-106, as amended, requires that we provide for the independent and objective leadership and coordination of, and recommendations on, policies designed to promote economy, efficiency, and effectiveness in the administration of such programs and operations and to prevent and detect waste, fraud, and abuse.

We considered comments from the U.S. Army Corps of Engineers, Gulf Region Division, on a draft of this report when preparing the final report. Their comments on the draft of this report conformed to requirements and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Mr. Clifton Spruill by email at clifton.spruill@iraq.centcom.mil or at (703) 343-8817, or Mr. Glenn Furbish by email at glenn.furbish@iraq.centcom.mil or at (703) 343-8817. For the report distribution, see Appendix C.

A handwritten signature in black ink, reading "Stuart W. Bowen, Jr." with a stylized flourish at the end.

Stuart W. Bowen, Jr.
Inspector General

Special Inspector General for Iraq Reconstruction

SIGIR-05-028

January 24, 2006

GRD-PCO Management of the Transfer of IRRF-funded Assets to the Iraqi Government

Executive Summary

This report is one of a series of reports addressing the management, by U.S. government organizations, of the transfer of completed reconstruction projects to the Government of Iraq.

Introduction. In November 2003, the United States Congress appropriated \$18.4 billion for the Iraq Relief and Reconstruction Fund (IRRF) to support security, relief, rehabilitation, and reconstruction projects in post-war Iraq. The Gulf Region Division (GRD) of the U.S. Army Corps of Engineers and the Project and Contracting Office (PCO) have managed the completion of 1,692 projects valued at approximately \$1.4 billion through December 28, 2005, but the largest projects will not be finished until 2006-2007. Thousands of completed projects funded by the IRRF and other programs will be transferred to the Government of Iraq during 2006-2007. These projects combined represent the eventual transfer of billions of dollars of assets. A formal asset transfer process is necessary to enable the Government of Iraq to integrate the completed project assets into a nation-wide infrastructure management plan; adequately budget for sustaining the transferred project assets; account for the assets; and leverage the project assets to obtain financing for additional projects from world markets.

Objectives. The overall objective of this audit was to determine whether the U.S. government organizations responsible for managing IRRF projects have developed and approved policies and procedures for transferring the billions of dollars of assets purchased, renovated and constructed with IRRF funds to the Iraqi Government and its citizens. This audit focused specifically on asset recognition and transfer policies and procedures used by two organizations managing IRRF projects; the GRD and PCO. The responsibilities of the GRD were consolidated with those of the PCO on December 4, 2005. This report uses the term GRD-PCO for the consolidated entity. We will report on other U.S. government organizations in future reports.

Results. The GRD-PCO has recognized the need for formal asset recognition and transfer policies and procedures, and is working, in coordination with the Iraq Reconstruction Management Office and others, to resolve the issue. However, current GRD-PCO policies and procedures are geared toward asset transfer to Iraqi government representatives at the local level, and do not address the information needs of the Government of Iraq and the Iraqi Ministries responsible for planning the integration and sustainment of completed projects. The GRD-PCO has acknowledged the problem and is participating in two multi-agency working groups to develop a common policy and process for facilitating the legal, financial, and logistical transfer of assets to the Government of Iraq.

Management Actions. During the course of this audit, the GRD-PCO acknowledged the need to further address the asset recognition and transfer issue, and dispatched a team to

Iraq in November 2005 to provide an in-depth assessment of the current contract close-out and asset-transfer processes. In addition, it participates in two multi-agency working groups, the Information Technology Working Group and the Asset Recognition and Transfer Team Working Group, comprised of representatives from the principal U.S. government agencies charged with the relief and reconstruction effort in Iraq.

The Information Technology Working Group was formed to consolidate all U.S. government funded and managed relief and reconstruction project asset information across all infrastructure sectors and organizations throughout Iraq into one database. The name for this consolidated database is the “Iraq Reconstruction Management System”. One of the intended goals for the Iraq Reconstruction Management System is the capability to turn over to the Iraqi government an archive of the U.S. government’s relief and reconstruction project information, which will help the Iraqi government in its budgeting for sustainment of transferred facilities and future master planning.

The U.S. Department of State’s Iraq Reconstruction and Management Office established the Asset Recognition and Transfer Team Working Group, which includes representatives from the GRD-PCO, Iraq Reconstruction Management Office, U.S. Agency for International Development, Multi-National Security Transition Command-Iraq, Multi-National Force-Iraq, Joint Contracting Command-Iraq/Afghanistan and others, to develop a common policy and process for the represented agencies to facilitate the legal, financial and logistical transfer of assets to the Government of Iraq.

Recommendations. We recommend that the Commanding General, Gulf Region Division, U.S. Army Corps of Engineers direct the GRD-PCO, in coordination with the Iraq Reconstruction Management Office, to complete the development of a common policy and process facilitating the transfer of completed project assets to the Government of Iraq. That process should, at a minimum, provide formal notification of the project asset transfer to the Iraqi Ministry of Planning, Ministry of Finance, and the appropriate operating ministry central headquarters (Electricity, Water, Oil, Health, Education, Transportation, Roads, Communications, Justice, Interior and Defense). Notification should also include, at a minimum, relevant data such as operation start date, asset cost, estimated short-term and long-term sustainability costs, terms of warranties, and the location of maintenance and systems manuals and instructions.

Management Comments and Audit Response. The Commanding General, Gulf Region Division, U.S. Army Corps of Engineers concurred with the finding and recommendations; and the comments to all recommendations are fully responsive.

Additional Observations. In the course of our review, we also noted that in addition to the IRRF, Iraq reconstruction activities are also being funded by the Development Fund for Iraq, the Commander’s Emergency Response Program, and the Commander’s Humanitarian Relief and Reconstruction Program as well as various other U.S. government administered funding sources. As with IRRF-funded projects, formal asset recognition and transfer policies and procedures are similarly needed for the transfer of additional billions of dollars worth of assets. We believe that the transfer of all assets developed or funded by U.S. government programs should be governed by a common set of policies and procedures.

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Introduction

Background

On November 6, 2003, the U.S. Congress appropriated \$18.4 billion, through Public Law 108-106, for the Iraq Relief and Reconstruction Fund (IRRF) to fund Iraq reconstruction requirements that had been identified by the Coalition Provisional Authority during the summer and fall of 2003. The Coalition Provisional Authority identified thousands of projects within various infrastructure sectors in Iraq, such as electricity, water, oil, health care, transportation, and education. Although this audit focuses on the IRRF, there are additional programs such as the Commander's Emergency Response Program, the Development Fund for Iraq, the Commander's Humanitarian Relief and Reconstruction Program and other sources that are funding thousands of additional reconstruction projects.

The Gulf Region Division (GRD) of the U.S. Army Corps of Engineers and the Project and Contracting Office (PCO) have managed the completion of 1,692 projects valued at approximately \$1.4 billion through December 28, 2005, but the largest projects will not be finished until 2006-2007. Thousands of additional completed projects funded by the IRRF and other programs will be transferred to the Government of Iraq during 2006-2007. As a result of these projects, billions of dollars worth of assets will be transferred to the Government of Iraq. Therefore, it is imperative the transfer process be accomplished in a manner that enables the Government of Iraq to integrate the completed project assets into a nation-wide infrastructure plan for future capital projects, assure adequate budgeting for sustainability of the transferred project assets, and leverage those project assets to obtain financing for additional projects from world markets.

Responsibilities

According to National Security Presidential Directive 36, entitled, "United States Government Operations in Iraq," the Chief of the U.S. Mission in Iraq, under guidance from the Secretary of State, is responsible for the direction, coordination, and supervision of all United States government employees, policies, and activities in country, except those under the command of an area military commander. This includes the continuous supervision and general direction of all assistance for Iraq. The Directive also creates a temporary organization within the Department of State, called the Iraq Reconstruction Management Office to facilitate the reconstruction in Iraq.

The PCO was also created by National Security Presidential Directive 36. It is a temporary Department of Defense organization whose staff was assigned under Chief of the U.S. Mission in Iraq authority. It provides program management services for Department of Defense contracts and for contracts managed by the Department of State and other departments and agencies.

The GRD provides engineering and construction services to the Multi-National Force-Iraq and the Iraqi government in support of military and civil construction. This is accomplished through its Baghdad headquarters, three district offices, and numerous field offices located throughout Iraq.

The responsibilities of the PCO were consolidated with those of the GRD on December 4, 2005. Planners anticipated that the GRD would have a longer-term

presence in Iraq to support Multi-National Force-Iraq and there were potential organizational efficiencies to downsize and restructure PCO functions while GRD continued its presence in Iraq. This report will use GRD-PCO as the name for the consolidated entity.

Objectives

The overall objective of this audit was to determine whether the U.S. government organizations responsible for managing IRRF projects have developed and approved policies and procedures for transferring the billions of dollars worth of assets purchased, renovated and constructed with IRRF funds to the Government of Iraq and its citizens. This audit focused specifically on asset recognition and transfer policies and procedures used by two organizations managing IRRF projects; the GRD and PCO. We will report on other U.S. government organizations in future reports.

For a discussion of the audit scope and methodology, see Appendix A. For definitions of the acronyms used in this report, see Appendix B. For a list of the audit team members, see Appendix D.

Asset Recognition and Transfer Policies and Procedures

Effective asset recognition and transfer requires that assets be properly accepted by the U.S. government, accounted for, and then formally transferred to the Government of Iraq. PCO-GRD officials told us they are in the process of developing, in coordination with the Iraq Reconstruction Management Office and others, a common process and policy facilitating the transfer of assets to the Government of Iraq and estimate that these policies and plans will be completed by March 31, 2006, contingent upon the Government of Iraq's participation and concurrence.

Coordination of Iraqi Responsibility

Asset recognition and transfer is the final step in a process which should begin with Government of Iraq involvement in the programming and design of the project and continue through the inspection process and development and receipt of the contract deliverables necessary for operations and maintenance of the completed project. The final acceptance and transfer of the project assets should be the culmination of a collaborative process between the appropriate United States and Government of Iraq representatives. An effective transfer process will help GRD-PCO, in coordination with others, prepare the Government of Iraq to sustain completed project assets after transfer. In addition, proper recognition of the completed project assets will enable the Government of Iraq to leverage those assets to obtain financing from world markets, including the International Monetary Fund, World Bank, non-governmental organizations and donor nations.

Asset recognition and turnover is important because the Government of Iraq needs to plan for and fund infrastructure and sustainment of completed projects on a nation-wide basis. This requires a comprehensive knowledge by all appropriate ministries of assets being transferred to its control. According to a senior Iraq Reconstruction Management Office official, an effective asset recognition and transfer program in the current Iraqi political and security environment should include notification of the transfer to the Ministry of Planning, Ministry of Finance, and appropriate operating ministry (Electricity, Water, Oil, Health, Education, Transportation, Roads, Communications, Justice, Interior and Defense) at the central government level in Baghdad.

The Ministry of Planning has final planning responsibility for all capital assets. Recognition of transferred assets by the Ministry of Planning is necessary in order to integrate them into a nation-wide infrastructure plan for future capital projects that will best serve the people of Iraq. The Ministry of Finance is responsible for the overall Iraqi budget. Recognition by the Ministry of Finance is necessary to assure adequate budgeting for sustainability of the transferred assets. In addition, proper recognition of the completed projects will enable the Ministry of Finance to leverage those assets to obtain financing from world markets, including the International Monetary Fund, World Bank, non-governmental organizations and donor nations.

Coordination of U.S. Responsibility

The GRD-PCO has developed standard operating procedures for transferring assets, but these policies and procedures are geared towards the turnover of projects and facilities to

Iraqi government representatives at the local level. This was because the GRD-PCO saw its role as limited to what was needed for successful transition of its infrastructure projects to the Iraqis at the local system or facilities level. The GRD-PCO has written procedures requiring Iraqi government involvement in the asset inspection and turnover process, but lacks specific procedures requiring notification of the asset transfer to the operating ministry headquarters in Baghdad or to the Ministry of Planning or Ministry of Finance.

GRD-PCO officials also recognized the need to improve their policies and procedures for closing contracts and transferring IRRF funded assets to the Government of Iraq. In November 2005, the U.S. Army Corps of Engineers dispatched a team to Iraq to assess the current contract close-out and asset-transfer processes. A senior GRD-PCO official told us the team concluded that, in general, contracts were being closed out and assets transferred by the local GRD field offices to the Government of Iraq in accordance with GRD-PCO standard operating procedures. However, to enhance these processes as the reconstruction effort matures, GRD-PCO plans to establish dedicated contract close out teams to work at field offices and achieve greater consistency in the processes by providing additional training to field office personnel.

The GRD-PCO also participates in two multi-agency working groups, the Information Technology Working Group and the Asset Recognition and Transfer Team Working Group, comprised of representatives from the principal agencies of the U.S. government charged with the relief and reconstruction effort in Iraq. These agencies include, among others, GRD-PCO, the Iraq Reconstruction Management Office, Multi-National Force-Iraq, Multi-National Security Transition Command-Iraq, Joint Contracting Command-Iraq/Afghanistan, and the U.S. Agency for International Development.

The Information Technology Working Group was formed in August 2005 to consolidate all U.S. government funded and managed relief and reconstruction project information across all sectors and organizations throughout Iraq into one database. The name for this consolidated database is the Iraq Reconstruction Management System. One of the intended goals for the Iraq Reconstruction Management System is the capability to turn over to the Government of Iraq an archive of the total U.S. government's relief and reconstruction project information, which will help the Iraqi government in its budgeting for sustainability of transferred facilities and future master planning.

In addition, the GRD-PCO is a member of the Asset Recognition and Transfer Team Working Group which held its first formal meeting in December 2005. This Working Group was started to build on earlier informal efforts by representatives from the Iraq Reconstruction Management Office, Joint Contracting Command-Iraq/Afghanistan and others to develop a common policy and process for all U.S. agencies to use in transferring assets to the Government of Iraq. In September 2005, their effort resulted in a draft for common policy and process, but further progress on the issue was limited until the formal Working Group began work in December 2005.

The Working Group includes, among others, representatives from GRD-PCO, Iraq Reconstruction and Management Office, U.S. Agency for International Development, Multi-National Security Transition Command-Iraq, Multi-National Force-Iraq, and Joint Contracting Command-Iraq/Afghanistan. The purpose of the Working Group is to complete the development of a common policy and process for the represented agencies to facilitate the legal, financial and logistical transfer of assets to the Government of Iraq. In its written response to the draft of this audit report, GRD-PCO stated that they anticipate having written policies and procedures in place by March 31, 2006, contingent upon the Government of Iraq's participation and concurrence.

Conclusion

Current GRD-PCO policies and procedures are insufficient to assure the successful recognition and transfer of assets to the Government of Iraq because they do not require the provision for notification and sufficient information to the appropriate Iraqi Ministries to enable adequate long-term, nation-wide planning for the integration and sustainability of completed projects transferred to the Government of Iraq. To its credit, GRD-PCO has acknowledged the problem and is working to resolve the asset recognition and transfer issue.

Recommendations, Management Comments, and Audit Response

We recommend that the Commanding General, Gulf Region Division, U.S. Army Corps of Engineers direct the GRD-PCO, in coordination with the Iraq Reconstruction Management Office, to complete the development of a common policy and process facilitating the transfer of completed project assets to the Government of Iraq. That process should, at a minimum, provide formal notification of the project asset transfer to the Iraqi Ministry of Planning, Ministry of Finance, and the appropriate operating ministry central headquarters (Electricity, Water, Oil, Health, Education, Transportation, Roads, Communications, Justice, Interior and Defense). Notification should also include, at a minimum, relevant data such as operation start date, asset cost, estimated short-term and long-term sustainability costs, terms of warranties, and the location of maintenance and systems manuals and instructions.

Management Comments. The Commanding General, Gulf Region Division, U.S. Army Corps of Engineers, concurred with the finding and recommendations.

Audit Response. The management comments to the recommendations are fully responsive.

Additional Observations

In the course of our review, we also noted that in addition to the IRRF, Iraq reconstruction activities are also being funded by the Development Fund for Iraq, the Commander's Emergency Response Program, and the Commander's Humanitarian Relief and Reconstruction Program as well as various other U.S. government administered funding sources. As with IRRF-funded projects, formal asset recognition and transfer policies and procedures are similarly needed for the transfer of additional billions of dollars worth of assets. We believe that the transfer of all assets developed or funded by U.S. programs should be governed by a common set of policies and procedures.

Appendix A. Scope and Methodology

We initiated this review in November 2005 (Project No. SIGIR-2005-21) to determine if the Gulf Region Division (GRD) of the U.S. Army Corps of Engineers, and the Project and Contracting Office (PCO) had adequate policies and procedures in place to manage the transfer of assets to the Government of Iraq. We interviewed GRD-PCO representatives, including the Director, Program Management and Integration Division. We also interviewed representatives from the Joint Contracting Command-Iraq/Afghanistan to discuss the legal requirements for closing out contracts and transferring assets to a foreign government. We also interviewed representatives from the Iraq Reconstruction Management Office to gather information about how the asset transfer process affects planning and budgeting at the Iraqi central government level.

We reviewed GRD-PCO policies and procedures regarding the contract close-out and asset transfer process. We did not visit GRD field offices to review completed contract close-out and asset transfer documentation to determine if they were accomplished in accordance with GRD-PCO policies and procedures. We plan to address this issue in a future audit.

We conducted this audit from November 2005 through December 2005, in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We did not use computer-processed data to perform this audit.

Prior Coverage. There have been no audits performed concerning the Iraq Relief and Reconstruction Fund with the same or similar objectives as this audit.

Appendix B. Acronyms

GRD	Gulf Region Division (U.S. Army Corps of Engineers)
IRRF	Iraq Relief and Reconstruction Fund
PCO	Project and Contracting Office

Appendix C. Report Distribution

Department of State

Secretary of State

Senior Advisor to the Secretary and Coordinator for Iraq

U.S. Ambassador to Iraq

Director, Iraq Reconstruction Management Office

Inspector General, Department of State

Department of Defense

Secretary of Defense

Deputy Secretary of Defense

Director, Defense Reconstruction Support Office

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Inspector General, Department of Defense

Department of the Army

Assistant Secretary of the Army for Acquisition, Logistics, and Technology

Principal Deputy to the Assistant Secretary of the Army for Acquisition,
Logistics, and Technology

Deputy Assistant Secretary of the Army (Policy and Procurement)

Director, Project and Contracting Office

Commanding General, Joint Contracting Command – Iraq/Afghanistan

Assistant Secretary of the Army for Financial Management and Comptroller

Chief of Engineers and Commander, U.S. Army Corps of Engineers

Commanding General, Gulf Region Division

Auditor General of the Army

U.S. Central Command

Commanding General, Multi-National Force – Iraq

Commanding General, Multi-National Security Transition Command – Iraq

Commander, Joint Area Support Group – Central

Other Defense Organizations

Director, Defense Contract Audit Agency

Other Federal Government Organizations

Director, Office of Management and Budget
Comptroller General of the United States
Inspector General, Department of the Treasury
Inspector General, Department of Commerce
Inspector General, Department of Health and Human Services
Inspector General, U.S. Agency for International Development
Mission Director – Iraq, U.S. Agency for International Development

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

U.S. Senate

Senate Committee on Appropriations
 Subcommittee on Defense
 Subcommittee on State, Foreign Operations and Related Programs
Senate Committee on Armed Services
Senate Committee on Foreign Relations
 Subcommittee on International Operations and Terrorism
 Subcommittee on Near Eastern and South Asian Affairs
Senate Committee on Homeland Security and Governmental Affairs
 Subcommittee on Federal Financial Management, Government Information and International Security
 Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

U.S. House of Representatives

House Committee on Appropriations
 Subcommittee on Defense
 Subcommittee on Foreign Operations, Export Financing and Related Programs
 Subcommittee on Science, State, Justice and Commerce and Related Agencies
House Committee on Armed Services
House Committee on Government Reform
 Subcommittee on Management, Finance and Accountability
 Subcommittee on National Security, Emerging Threats and International Relations
House Committee on International Relations
 Subcommittee on Middle East and Central Asia

Appendix D. Audit Team Members

This audit report was prepared and the audit work was conducted under the direction of Joseph T. McDermott, the Assistant Inspector General for Auditing, Office of the Special Inspector General for Iraq Reconstruction. The staff members who contributed to the report include:

Glenn Furbish

Robert Gabriel

John Morrell

Management Comments

Commanding General, Gulf Region Division, U.S. Army Corps of Engineers



REPLY TO
ATTENTION OF

CEGRD-CG

DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
GULF REGION DIVISION
BAGHDAD, IRAQ
APO AE 09316

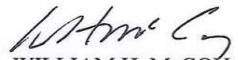
15 January 2006

MEMORANDUM FOR Special Inspector General for Iraq Reconstruction, 400 Navy Drive,
Arlington, VA 22202

SUBJECT: Draft SIGIR Audit Report – GRD-PCO Management of the Transfer of IRRF
Funded Assets to the Government of Iraq

1. The purpose of this memorandum is to provide the U.S. Army Corps of Engineers, Gulf Region Division response to the subject draft audit report.
2. The Gulf Region Division concurs with the findings and recommendations contained in the draft report.
3. We appreciate your review of the Management of IRRF Funded Assets and your recommendations to improve the asset transfer process. Thank you for the opportunity to provide our written comments for incorporation as an appendix in the final audit report.
4. If you have any questions, please contact Mr. Milton Naumann at (540) 665-5064 or his email Milton.Naumann@tac01.usace.army.mil.

Encl


WILLIAM H. McCOY
Brigadier General, USA
Commanding

COMMAND REPLY

SIGIR Draft Report – GRD-PCO Management of the Transfer of IRRF Funded Assets to the Government of Iraq, SIGIR-05-028

Recommendation and Command Comments

Recommendation. We recommend that the Commander, Gulf Region Division, direct the GRD-PCO, in coordination with the Iraq Reconstruction Management Office, to develop a common policy and process facilitating the transfer of completed project assets to the Government of Iraq. That process should, at a minimum, provide formal notification of the project asset transfer to the Iraqi Ministry of Planning, Ministry of Finance, and the appropriate operating ministry central headquarters (Electricity, Water, Oil, Health, Education, Transportation, Roads, Communications, Justice, Interior and Defense). Notification should also include, at a minimum, relevant data such as operation start date, asset cost, estimated short-term and long-term sustainability costs, terms of warranties, and the location of maintenance and systems manuals and instructions.

Action Taken. Concur. GRD-PCO is currently working with Iraq Reconstruction Management Office (IRMO) through the Asset Recognition and Transfer Team Working Group (ARTTWG) to develop a common process and policy facilitating the transfer of completed assets to the Government of Iraq. The ARTTWG plans to complete development of the transfer process and write the policy by 31 March 2006; however, this milestone is contingent upon the Government of Iraq's participation and concurrence.

GRD-PCO recommends expanding the ARTTWG to include all executing agencies so guidance can be uniformly applied.

Enclosure